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THEORETICAL PERSPECTIVE FOR THE DIFFUSION OF HIGH PERFORMANCE WORK SYSTEMS

SEUNGHO CHOI

Ewha Womans University, Ewha School of Business, Seoul, Korea

I. ABSTRACT

The strategic perspective of human resource (HR), which has been labeled strategic human resource management (SHRM), has become an important focus of research in the human resource management (HRM). Previous research has demonstrated the substantial financial benefits of HPWS. However, there is little evidence of much diffusion of HPWS into organizations. Why don't organizations change, even when confronted with fairly convincing evidence concerning the efficacy of HPWS? This paper intends to answer that question. More specifically, this paper will examine what factors prevent the diffusion of the HPWS using several organizational theories.

KEYWORDS: Strategic Human Resource Management, Diffusion, High Performance Work Systems

INTRODUCTION

II. LITERATURE REVIEW

The strategic perspective of human resource (HR), which has been labeled strategic human resource management (SHRM), has become an important focus of research in the human resource management (HRM) (Delery & Doty, 1996). Wright and Mcmahan (1992) define SHRM as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals" (1992: 298). SHRM research is clearly distinguished from more traditional HRM. According to Delery and Shaw (2001), SHRM studies have articulated the strategic role that HR can play in improving organizational effectiveness. In addition, HRM practice research has traditionally had a micro-level (individual level) focus. On the other hand, SHRM research is typically conducted at macro-level (business-unit or organizational-level) of analysis. The linkage between human resource practices and organizational effectiveness is supported by a resourced based view of the firm (Barney, 1991; Conner, 1991; Wernerfelt, 1984). This theory provides a framework for considering how to use valuable, rare, inimitable and non- substitutable human resources to serve as a sustainable competitive advantage for a firm (Wright et al, 2001).

There are generally three main approaches to SHRM research. Some authors argued for a "best practices"approach to SHRM (Huselid, 1993, 1995; Osterman, 1994; Pfeffer, 1994; Terpstra&Rozell, 1993). They claim that some HR practices are always better than others and that all organizations need to adopt these best practices. For instance, Pfeffer (1994, 1998) strongly asked firms to invest in high performance work systems of HR practices, which are designed to enhance employees' skills, commitment, and productivity. A second of group of researchers has adopted a contingency perspective (Dyer, 1985; Golden & Ramanujam, 1985; Schuler & Jackson, 1987; Datta, Guthrie, & Wright, 2005). They advocate that, in order to be effective, an organization's HR policies must be consistent with other aspects of the organization such as industry, size and firm strategy. A third group of SHRM theorists has adopted a configurational approach that is related to organization theory and strategic management literature (Delery et al, 1996).

Configurational theories differ from universalistic and traditional contingency theories because they are based on the holistic principle of inquiry and typologies of ideal types, and explicitly adopt the systems of assumptions of "equifinality" (Doty, Glick, & Huber. 1993; Dotty & Glick, 1994; Venkatraman & Prescott, 1990). Delery and Doty argued that "configurational theories are concerned with the pattern of multiple independent variables rather than with how individual independent variables are related to the dependent variable (1996: 804). However, as Figure 1 shows,all three approaches are based on the assumption that a set of HR practices (called high performance work systems (HPWS)) are positively associated with firm performance. A number of researchers have successfully demonstrated this positive relationship between HPWS and various measures of firm performance (MacDuffie, 1995; Youndt, Snell, Dean & Lepak, 1996; Guthrie, 2001; Huselid, 1995; Huselid & Becker, 2000). Nevertheless, researchers have come to no agreement on how HPWS influence firm performance. Many researchers have pinpointed various variables to articulate this mechanism: job satisfaction, organizational commitment, absenteeism, voluntary turnover, and engagement. This argument, however, has nothing to do with the fundamental assumption of there being a positive relationship between HPWS and firm performance.

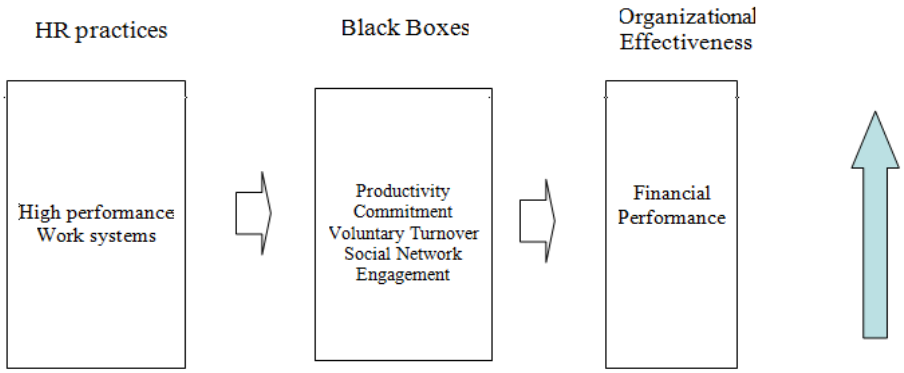

Figure 1: The Current Mechanism of SHRM

Wright, Gardner, Moynihan and Allen (2005) questioned the methodological rigor of existing research to demonstrate the causal relationship between HPWS and performance. They argued that regardless of the strength of the statistical relationship between dependent variable (firm performance) and independent variable (HPWS), researchers should be extremely careful when drawing causal inferences. These authors however, did not question whether HPWS has positive impacts on performance in the first place.

Therefore, I assume in this paper there is a positive association between HPWS and firm performance. In other words, HPWS provides better ways of managing people with organizations and have positive impacts on quality, productivity and profits of firms (Pfeffer, 1996)

III. THE DIFFUSIN OF HPWS

As mentioned in the previous section, many well designed studies have demonstrated the substantial financial benefits of HPWS. However, there is little evidence of much diffusion of HPWS into organizations.

Pfeffer argued that "although there is certainly rapid diffusion of language – language of empowerment and putting people first, the language of employee loyalty, language of Total Quality Management and so forth- in many cases, not much actually changes what occurs on a day to day basis and in fundamental organizational business model"

(2005:123). For instance, a government accounting office survey of the Fortune 1000 firms found that as of 1990, 90 percent of the organizations made virtually no use of self-managing teams, 79 percent did not employ work-group and team based incentives, and 70 percent did not employ quality circles (Pfeffer,1996). Dunlop and Weil (1996) illustrated the lack of the diffusion of HPWS in theirstudy of apparel manufacturing which demonstrated that modular production, with an emphasis on team-based production, produced far superior economic performance along a number of dimensions compared to the traditional bundle system of manufacturing – characterized by low wages, high rates of occupational injuries, little career mobility, and poor economic performance. In spite of this, the increased benefits that result to a company when it adopts modular production, with an emphasis on team-based production appears to be advocated by no one. In 1985, 97 percent of all apparel manufacturers employed the bundle system, a number that declined only slightly to 90 percent by 1988 and 82 percent by 1992. Similarly, evidence for the advantages of adopting flexible or lean production methods in the automobile assembly instead of traditional manufacturing methods is compelling (MacDuffie, 1995). The positive impact of the lean system was widely diffused within the industry and has been for some time. Nevertheless, a five year follow up study of the diffusion of flexible manufacturing systems found that there was only modest implementation of flexible arrangements and that some plants undertook only minor changes in their use of HPWS (Pil & MacDuffie, 1996). Furthermore, British research, based on the 1998 *Workplace Employee Relations Survey*, puts the spread of 'high commitment' practices at no more than 14 per cent of workplaces (Cully, Woodland, O'reilly& Dix 1999). Osterman (1994) also estimated that only some 35 per cent of US organizations, which have at least 50 employees, have adopted at least two forms of 'innovative' work practice. Of particular interest is Pfeffer and Sutton's well-designed study in 1999 that comprehensively analyzed the diffusion problems of HPWS. They investigated "knowing and doing problems"in which companies frequently fail to transform knowledge into action through their quantitative and qualitative methods. They argued that the knowing and doing gap was one of the most important and vexing barriers to organizational performance.

Why don't organizations change, even when confronted with fairly convincing evidence concerning the efficacy of HPWS? *This paper intends to answer that question. More specifically, this paper will examine what factors prevent the diffusion of the HPWS using several organizational theories.* I believe that exploring the diffusion of HPWS helps give us a more complete picture of HPWS (Figure 2).

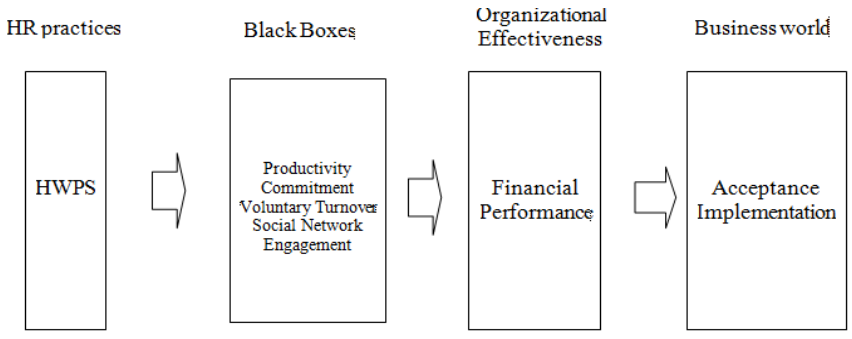

Figure 2: The Complete Mechanism of SHRM

IV. THE DIFFUSION OF HPWS

The diffusion of HPWS consists of two procedures: acceptance and implementation. Acceptance refers to procedures whereby organizations conceive the effectiveness and necessity of certain administrative practices. Companies

can recognize the usefulness of new knowledge through various channels: observing competitors, the instruction of consultants, or assessing books and research papers. Through this process, organizations find out the relevance of HPWS. The acceptance process also includes the actual adoption of new HPWS into firms' operations. For instance, Toyota has been one of the most successful, productive, and profitable automobile manufacturers in the world. The outcomes of Toyota's HPWS including comprehensive employee participation, job security, quality circles and total quality management greatly impressed U.S automobile makers. As such, U.S automobile makers eventually adopted Japanese managerial practices in their plants in order to obtain Japanese automobile companies' competitive advantages.

Implementation implies that organizations internalize adopted HPWS in terms of their distinct characteristics of strategy, culture, workforce and competitive environment. Administrative technologies become effectively only through gradual, careful, and sustained implementation processes that provide organizations with tacit knowledge and the skills necessary to implement innovations successfully (Polanyi, 1967; Teece, 1977). In other words, the implementation process includes all follow-up activities that organizations develop to make adopted managerial innovations work in their own contexts. For example, General Motors made a joint venture with Toyota (New United Motor Manufacturing Inc (NUMMI)), to learn Japanese management practices. NUMMI offers higher rates of pay than many other automobile plants and also provides a higher degree of job security to their employees. Furthermore, it emphasizes substantial investment in training and development and creates an action- oriented work culture. Eventually, NUMMI is now an award-winning facility which ranks on-par with other Toyota plants as being among the most productive manufacturing operations in North America.

Figure 3 pictorially shows that the effective diffusion of HPWS requires both acceptance and implementation procedures. For instance, the knowledge of HPWS cannot be transformed into actions without successful implementation. On the other hand, actions might be mindless and aimless if organizations do not clearly understand the effects and purpose of HPWS. Therefore, this implication suggests that;

Proposition 1: *The diffusion of HPWS consists of two essential procedures: acceptance and implementation, which affects the effectiveness of HPWS*

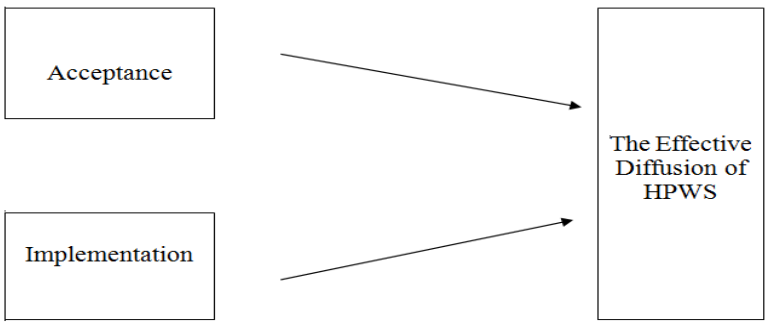

Figure 3: The Diffusion Mechanism of HPWS

Institutional Perspective

The basic notion of institutional approach is that organizations adopt many programs and practices to gain legitimacy rather than to improve performance. As new practices spread, a threshold is reached beyond which adoption provides legitimacy rather than improves performance (Meyer& Rowan, 1997 W). Therefore, what many view as rationally-derived organizational structures may only appear to be so (Wright et al, 1992). This process has a ritual aspect:

companies adopt HPWS to signal innovativeness, to instill hope or relieve boredom (Abrahamson, 1991) Furthermore, uncertainty stimulates organizations to adopt HPWS without rational decision making processes. Organizations have unclear goals and high uncertainty about the technical efficiency of HPWS (March & Olson, 1976). Under conditions of uncertainty, organizations may imitate other organizations (DiMaggio & Powell, 1983). In other words, organizations base their decisions of adoptions of HPWS on the decisions of other organizations (Thompson, 1967). In particular, consulting firms, mass media and business schools have played critical roles in promoting HPWS with the use of their fashion setting networks (DiMaggio & Powell, 1983; Kimberly,1981; Mintzberg,1979). Eventually, organizations might face "bandwagon pressures"-pressures to adopt a HPWS that increase according to the number of other organizations that have already adopted it (Abrahamson & Bartner, 1990; Katz & Shapiro, 1985; Mansfield, 1961). The institutional perspective may be useful in explaining the acceptance process of HPWS among companies.

Proposition 2: *The necessity of gaining legitimacy and reducing uncertainty will stimulate organizations to adopt HPWS*

The institutional perspective can be also adopted to examine implementation processes of HPWS. The mindless imitation of organizations might generate the fads or fashion of HPWS. If organizations are obsessed with enhancing legitimacy through the adoption of HPWS, they do little to boost organizations' economic performance (Abrahamson, 1986; Fombrun, 1987). Furthermore, fads or fashions cause organizations to leap rapidly from one HPWS to the next, so that companies do not have enough time to implement HPWS efficiently (Hackman, 1975; Lawler & Mohrman, 1985). Consultants and business mass media are deeply involved in the creation or dissemination of fashion. By creating a new trend of managerial practices, they can attract more organizations to their services and products. As a result, the faddish nature of HPWS drives organizations to implement HPWS in order to appear modern and professional. For example, the quality circle was deemed to be effective in Japanese firms. Consulting firms and business media frenetically introduced the advantages of quality circle to U.S companies, in spite of the fact that these programs were only occasionally successful in the U.S. (Lawler & Mohrman, 1987).

Proposition 3: *The faddism of HPWS will prevent organizations from implementing HPWS to increase their performance.*

Path Dependency Perspective

Even though the path dependency theory originated in economics through the work of Paul David (1985), it was adopted to understand organizational change by behavioral scientists (Hannan & Freeman, 1984; Caroll & Swaminathan, 1992; Tripsas & Gavetti, 2003). One of the core concepts of path dependency theory (PDT) is that of the legacy of history. PDT assumes that past decisions restrain present and future choices (Jorg, Georg & Jochen 2005). As firms make successive decisions aftertheir initial choices, they eventually become committed and subject to their previous actions. In other words, the practices adopted at the beginning of the organization's history remain embedded in the organization (Wright et al, 1992). As a result, when old practices have to be replaced by emerging new systems, people generate strong resistance against such changes and try to maintain the status quo, leading to organizational inertia (Hannan & Freeman, 1984). Hannan and Freeman argued (1977) that organizations are subject to strong inertial forces arising from both internal arrangement and from the environment. Internal factors include sunk costs in plan, equipment, and people, the dynamics of political coalitions, and the tendency for precedents to become normative standards. External factors are legal barriers to entry and exit from realms of activity (Hannan & Freeman, 1984).

HPWS requires dramatic changes in organizational structure and strategy compared to traditional human resource practices. For instance, HPWS can be operated efficiently in organizational contexts, which have flat and flexible structures. In addition, the autonomous participation of employees and cooperation of team members are necessary for organizations to reap the benefits of HPWS. Management strategies should also identify their employees as a key organizational resource in achieving a sustainable competitive advantage. Therefore, the radical changes, which HPWS create, might generate strong inertial forces to prevent organizations from implementing HPWS. Self-managed teams, one of the major components of HPWS, demand managers to transform their roles from supervisors to coordinators. That means that managers have to transfer some of their authority and power to their subordinates. Managers may perceive this new practice as a threat to their status quo and create strong resistance against these changes in their roles and status. In particular, this may be a problem for large companies that have a long history as structural inertia increases with age and size of organizations (Hannan & Freeman, 1984). Eisenhardt (1988) argued that the age of department stores influenced their choice of whether to use salaries or commission among retail stores. She found the relationship between age of stores and the use of salaries by showing that newer stores were more likely to use salaries.

The path dependency perspective certainly helps to explain why organizations hesitate or fail to implement HPWS in their business, in spite of the substantial amount of research that demonstrates the validity of HPWS for organizational performance.

Proposition 4: *The legacy of history and inertial forces in organizations will impede the acceptance process of the efficient diffusion of HPWS.*

Proposition 5: *The legacy of history and inertial forces in organizations will impede the implementation process of the efficient diffusion of HPWS.*

Organizational Learning Perspectives

Learning Organizational perspectives might be applicable in addressing the diffusion of HPWS. Senge defined Learning Organizations as "organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together" (1990: 3). Cohen and Levinthal (1990) specifically defined firms' ability to identify, assimilate and exploit knowledge from external sources as 'absorptive capability'. Many studies show that learning and absorptive capacity co-evolve with each influencing the other (Barkema & Vermeulen, 1998). Hence, considering HPWS as new sets of knowledge, the acceptance and implementation of HPWS might rely on the absorptive capacity of each organization.

Polanyi (1958) categorized knowledge into two groups based on its characteristics: tacit knowledge and explicit knowledge. Tacit knowledge refers to implicit and non-codified know-how (Polanyi, 1958). It involves learning and skill but not in a way that can be written down. Tacit knowledge consists often of habits and culture that organizations do not recognize in themselves.. In contrast, explicit knowledge is knowledge that has been or can be articulated, codified, and stored in certain ways (Polanyi, 1958). The most common forms of explicit knowledge are manuals, documents, and stories.

Substantial research shows that absorptive capacity plays critical roles in the diffusion of knowledge, when absorbed knowledge is tacit (Nonaka, 1994; Simonin, 1999; Szulanski,1996). I argue that the effectiveness of HPWS's diffusion is related to the degree to which organizations absorb tacit knowledge, rather than explicit knowledge.

Competitors can easily imitate explicit knowledge of successful companies because it is sufficiently visible and well articulated to the public. In terms of the resource based view, imitable resources cannot generate sustainable competitive advantages in the long term. Firms' activities such as purchasing neaw equipment and establishing techniques, or establishing programs, are examples of explicit knowledge of HPWS. On the other hand, the characteristics of tacit knowledge such as social complexity and causal ambiguity make it hard for competitors to effectively emulate HPWS (Barney, 1991). Organizational philosophy and culture, which drive HPWS, belong to tacit knowledge. For example, many U.S automobile companies, which are eager to imitate the success of Toyota, have focused on a set of specific techniques such as quality process-cords to stop the production lines if there are defects, just in time inventory system, and particular statistical techniques. However, the secret to Toyota's success is the philosophy of total quality management and continuous improvement (Pfeffer and Sutton, 2006). In addition, Southwest Airlines' success does not simply rely on not serving meals or flying only 737s on short hauls, something that other airlines have already imitated. Instead, the key to Southwest's outstanding performance is great service and productivity generated by a strong culture built on a value system that puts employees first, and a way of thinking about and treating employees that has built loyalty and commitment even with a heavily unionized workforce. Therefore, the tacit characteristics of HPWS require organizations to develop absorptive capability in order to accept and implement HPWS. The organizational learning perspective suggests that:

Proposition 6*: The tacit nature of HPWS will impede the acceptance process of the efficient diffusion of HPWS.*

Proposition 7: *The tacit nature of HPWS will impede the implementation process of the efficient diffusion of HPWS.*

CONCLUSIONS

Previous research has demonstrated positive effects of HPWS on firm performance. However, there is little evidence of diffusion of HPWS into organizations. Why don't organizations change, even when confronted with fairly convincing evidence concerning the efficacy of HPWS?This paper examined what factors preventthe diffusion of the HPWS using several organizational theories. I hope this paper helps firms to implement HPWS effectively and efficiently while understanding the barriers of HPWS adoption.

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